

Costly Ignorance

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SUMMARY

Due to aging societies and economic developments such as the current low interest rate environment, pensions systems around the world are under pressure for reforms. Pension providers are shifting more risk and responsibility to individual pension plan participants, which means that it is crucial that people are well-informed about what they can expect when they retire. However, most participants do not read their pension providers' communication and do not search for information. One of the most challenging tasks for policy makers and financial services providers is thus how to activate people to search for information and enhance their financial decision making. In this dissertation, I therefore look at three main research objectives that I examine in three chapters.

In chapter 2, my co-authors and I investigate what drives differences in pension plan participants' search for retirement information. We test the Retirement Belief Model (RBM) with 583 Dutch and 1,156 UK pension plan participants, and find that the RBM core beliefs (perceived barriers, benefits, self-efficacy, severity, and susceptibility) as well as trust and emotions (retirement anxiety) have significant relationships with the search for information. The findings help both pension providers and policy makers in improving pension communication by stressing, for example, the benefits of information acquisition, establishing trust, and attenuating retirement anxiety.

In chapter 3, we look at how framing can help to activate participants. First, we show that while classical loss (vs. gain) frames can be a powerful nudge, they also evoke negative emotions and evaluations. Second, we conduct a large scale field experiment with 7,315 Dutch participants and test a gain (investment frame) and loss (assurance frame) alternative. We show that assurance framing is twice as effective in engaging participants to click on an educational movie link explaining pension scheme changes, and does not result in negative emotions or evaluations.

Finally, in chapter 4, we research the role of age-related cognitive and non-cognitive changes with regard to financial decision making in a sample of 926 UK respondents. We measured financial decision making by two self-report measures and two tasks that respondents needed to complete in the survey to test their actual skills. We find that cognitive skills are mainly important for the tasks respondents needed to do, while both cognitive and non-cognitive factors matter for the self-reported measures of financial decision making. Older adults do better across all measures, and especially benefit of their higher levels of experience and lower levels of negative emotions.